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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, MARCH 14, 2000

APPLICATION OF

DELMARVA POWER & LIGHT COMPANY

CASE NO. PUE000086

For Approval of a Plan for
Functional Separation of
Generation Pursuant to the Virginia
Electric Utility Restructuring Act

ORDER FOR NOTICE AND COMMENT

On February 4, 2000, Delmarva Power & Light Company ("Delmarva" or "Company") filed an application, pursuant to Virginia Code § 56-590 B of the Virginia Electric Utility Restructuring Act ("Restructuring Act"), for approval of a plan for the functional separation of its generation activities from its transmission and distribution activities (the "Plan"). Delmarva is a wholly owned subsidiary of Conectiv, a registered holding company under the Public Utility Holding Company Act of 1935 ("PUHCA"), and is a member of the PJM Interconnection, LLC ("PJM").

As part of its Plan, Delmarva is seeking or will seek approval of the following transfers of generation assets:

(1) the sale of its ownership interests in the Peach Bottom Nuclear Generating Station located in York County, Pennsylvania, and the Salem Nuclear Power Generating Station located in Salem

County, New Jersey to PECO Energy Company and PSEG Power, LLC ("Phase I"); (2) the sale of its Indian River (Delaware) and Vienna (Maryland) plants, and its ownership interests in the Keystone and Conemaugh (Pennsylvania) plants, to NRG Energy, Inc. ("Phase II"); and (3) the transfer of its remaining generating assets, including the Edge Moor, Hay Road, Madison Street, Christiana, Delaware City, and West I (Delaware), Crisfield (Maryland), and Bayview and Tasley (Virginia) plants to an affiliate, Conectiv Delmarva Generation, Inc. ("Phase III"). Delmarva proposes that the Phase III transfers be at net book value after approval in a separate filing under Chapter 4 of Title 56 of the Code of Virginia. Transfers of the Bayview and Tasley facilities located in Virginia will also require Commission approval under Chapter 5 of Title 56. Delmarva requests that the Commission make certain findings pursuant to PUHCA that the proposed transfers: (1) will benefit customers; (2) are in the public interest; and (3) are not contrary to state law.¹ Delmarva seeks expedited consideration of its proposed Phase I transfer of nuclear facilities.

Delmarva's Plan includes a proposal for incremental reductions in its base rates corresponding with the closing of the transfers in each Phase, with a final rate reduction

¹ See 15 U.S.C. § 79z-5a(c). Delmarva also seeks from the Commission these requisite PUHCA findings for the interests in the generation facilities held by the Company's affiliate, Atlantic City Electric Company.

providing a cumulative revenue decrease of 2.58% for each customer class. Delmarva proposes that upon completion of the proposed transfers of generating facilities, the rates at that time would remain in effect until at least January 1, 2004, except for scheduled annual increases in the fuel rates. The Company proposes as part of its Plan to establish a Virginia fuel rate that is equal to the energy charge of a power purchase agreement it recently executed with PECO Energy Company that expires May 31, 2006 (the "PECO PPA").

Delmarva's application envisions that a competitive market for electric generation will exist in its Virginia service territory by January 1, 2004, and its Plan contemplates a filing in mid-2003 for the termination of capped rates pursuant to § 56-582 C.

Delmarva states that its Plan fulfills the requirement that may be imposed by the Commission pursuant to § 56-590 B 3 that an incumbent electric utility's generation assets or their equivalent remain available for electric service during the capped rate period as provided in § 56-582, and during any period the incumbent serves as a default provider as provided for in § 56-585. The Company states that its Plan satisfies this requirement by its commitment to obtain, through power purchase agreements and its membership in PJM, sufficient capacity and energy to serve its Virginia retail load, with

sufficient capacity and energy priced with reference to the PECO PPA.

Delmarva's application also seeks a Commission determination that the Company's participation in PJM satisfies the requirements of §§ 56-577 and 56-579 that incumbent utilities with an interest in transmission capacity join or establish regional transmission entities, or, alternatively, that it is not subject to these provisions of the Restructuring Act because of the geographic isolation of its Virginia service territory.

NOW THE COMMISSION, upon consideration of this matter, is of the opinion that notice should be given of Delmarva's application and that interested persons should have the opportunity to comment and/or request a hearing in this proceeding. Accordingly,

IT IS ORDERED:

(1) This matter is docketed and assigned Case No. PUE000086.

(2) Delmarva shall make its application available to the public, who may obtain a copy of the application by requesting it in writing from Delmarva's counsel, Guy T. Tripp III, Esquire, Hunton & Williams, 951 East Byrd Street, Richmond, Virginia 23219-4074; or who may inspect the application, and all materials Delmarva may subsequently file in this proceeding, during regular business hours at Delmarva's Eastern Shore

business office located at 4174 Lankford Highway, Exmore, Virginia.

(3) Any interested person wishing to comment on Delmarva's application shall file such comments on or before April 14, 2000. Comments should include a precise statement of the interest of the party in the proceeding, and should state whether the person has an objection to the Commission giving expedited consideration to the proposed Phase I transfers of Delmarva's nuclear facilities.

(4) Any person desiring a hearing in this matter shall file such a request on or before April 14, 2000. A request must identify the precise aspects of Delmarva's application on which hearing is sought and shall identify the evidence the party proposes to introduce at such a hearing.

(5) An original and fifteen (15) copies of any comments and requests for hearing shall be filed with the Clerk of the Commission, P.O. Box 2118, Richmond, Virginia 23218, and shall refer to Case No. PUE000086.

(6) On or before March 22, 2000, Delmarva shall cause the following notice to be published as display advertising (not classified) in newspapers of general circulation in its Virginia service territory:

NOTICE TO THE PUBLIC OF AN APPLICATION BY
DELMARVA POWER & LIGHT COMPANY FOR APPROVAL
OF A PLAN FOR FUNCTIONAL SEPARATION OF
GENERATION PURSUANT TO THE VIRGINIA ELECTRIC
UTILITY RESTRUCTURING ACT
CASE NO. PUE000086

On February 4, 2000, Delmarva Power & Light Company ("Delmarva" or the Company") filed with the State Corporation Commission ("Commission") an application, pursuant to Virginia Code § 56-590 B of the Virginia Electricity Utility Restructuring Act, for approval of a plan for the functional separation of its generation activities from its transmission and distribution activities (the "Plan"). Delmarva is a wholly owned subsidiary of Conectiv, a registered holding company under the Public Utility Holding Company Act of 1935 ("PUHCA"), and is a member of the PJM Interconnection, LLC ("PJM").

As part of its Plan, Delmarva is seeking or will seek approval of the following transfers of generation assets: (1) the sale of its ownership interests in the Peach Bottom Nuclear Generating Station located in York County, Pennsylvania, and the Salem Nuclear Power Generating Station located in Salem County, New Jersey, to PECO Energy Company and PSEG Power, LLC ("Phase I"); (2) the sale of its Indian River (Delaware) and Vienna (Maryland) plants, and its ownership interests in the Keystone and Conemaugh (Pennsylvania) plants to NRG Energy, Inc. ("Phase II"); and (3) the transfer of its remaining generating assets, including the Edge Moor, Hay Road, Madison Street, Christiana, Delaware City, and West I (Delaware), Crisfield (Maryland), and Bayview and Tasley (Virginia) plants to an affiliate, Conectiv Delmarva Generation, Inc. ("Phase III"). Delmarva proposes that the Phase III transfers be at net book value after approval in a separate filing under Chapter 4 of Title 56 of the Code of

Virginia. Transfers of the Phase III facilities located in Virginia will also require Commission approval under Chapter 5 of Title 56. Delmarva seeks findings required by PUHCA that the sale and transfer of its generating assets: (i) will benefit customers; (ii) is in the public interest; and (iii) is not contrary to state law. Delmarva seeks expedited consideration of its proposed Phase I transfer of nuclear facilities.

Delmarva's Plan includes a proposal for incremental reductions in its base rates corresponding to the closing of the transfers in each Phase, with a final rate reduction providing a cumulative revenue decrease of 2.58% for each customer class. Delmarva proposes that upon completion of the proposed transfers of generating facilities, the rates at that time would remain in effect until at least January 1, 2004, except for scheduled annual increases in the fuel rates. The Company proposes as part of its Plan to establish a Virginia fuel rate that is equal to the energy charge of a power purchase agreement it recently executed with PECO Energy Company that expires May 31, 2006 (the "PECO PPA").

Delmarva's application envisions that a competitive market for electric generation will exist in its Virginia service territory by January 1, 2004, and its Plan contemplates a filing in mid-2003 for the termination of capped rates pursuant to § 56-582 C of the Code of Virginia.

Delmarva states that its Plan fulfills the requirement that may be imposed by the Commission pursuant to § 56-590 B 3 that an incumbent electric utility's generation assets or their equivalent remain available for electric service during the capped rate period as provided in § 56-582, and during any period the incumbent serves as a default provider as provided for in § 56-585. The

Company states that its Plan satisfies this requirement by its commitment to obtain, through power purchase agreements and its membership in PJM, sufficient capacity and energy to serve its Virginia retail load, with sufficient capacity and energy priced with reference to the PECO PPA.

Delmarva's application also seeks a Commission determination that the Company's participation in PJM satisfies the requirements of §§ 56-577 and 56-579 that incumbent utilities with an interest in transmission capacity join or establish regional transmission entities, or, alternatively, that it is not subject to these provisions of the Restructuring Act because of the geographic isolation of its Virginia service territory.

A copy of Delmarva's application is available for public inspection between the hours of 8:15 a.m. and 5:00 p.m. in the Commission's Document Control Center located on the first floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, and at Delmarva's Eastern Shore business office located at 4174 Lankford Highway, Exmore, Virginia, during its regular business hours. The application may also be requested in writing from Delmarva's counsel, Guy Tripp III, Esquire, Hunton & Williams, 951 East Byrd Street, Richmond, Virginia 23219-4074.

Any interested person wishing to comment on Delmarva's application shall file such comments on or before April 14, 2000. Comments should include a precise statement of the interest of the party in the proceeding, and should state whether the person has an objection to the Commission giving expedited consideration to the proposed Phase I transfers of Delmarva's nuclear facilities. Any person desiring a hearing in this matter shall file such a request on or before April 14, 2000. A

request for hearing must identify the precise aspects of Delmarva's application on which hearing is sought and shall identify the evidence the party proposes to introduce at such a hearing.

An original and fifteen (15) copies of any comments and requests for hearing or other written communications concerning Delmarva's application shall be filed with the Clerk of the Commission, P.O. Box 2118, Richmond, Virginia 23218, referring to Case No. PUE000086, and shall be served on Delmarva's counsel at the address noted above.

DELMARVA POWER & LIGHT COMPANY

(7) On or before March 22, 2000, Delmarva shall serve a copy of its application and this Order on the Chairman of the Board of Supervisors and the County Attorney for the counties of Northhampton and Accomack, and shall simultaneously file with the Clerk of the Commission proof of service on these government officials.

(8) On or before April 5, 2000, Delmarva shall file with the Clerk of the Commission proof of the notice and service required by ordering paragraphs (6) and (7).

(9) Delmarva and any other parties shall respond to interrogatories and data requests within ten (10) days of service. Except as modified herein, discovery shall be in accordance with part VI of the Commission's Rules of Practice and Procedure.

(10) This matter is continued for further orders of the Commission.